Comment on Notice 2021-17

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on Tuesday, January 18, 2022

Comment:

From the municipal issuer perspective they are being hit by numerous ESG methodologies and data requests.

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Smith article on ESG[2305843009457152084].docx

ESG Municipal Issuer Self-Certification; Is it a Value Added for the Municipal Bond Sector?

Have you ever been disorientated and a google search does not find your bearings? Ask most municipal bond issuers about how they plan to meet and report Environmental, Social and Governance factors, ESG, and most will scratch their heads. It is not that issuers do not want to report ESG factors, but for many there are so many approaches which creates disorientation and questions about what is material or important.

Before the myriad of ESG frameworks proceed further into the US municipal bond market, there should be a focus on what investors need in their understanding of ESG factors and what is expected of municipal issuers. Currently, the Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), Global Research Initiatives(GRI), Task Force on Climate Related Financial Disclosure (TCFD) or the Climate Disclosure Project (CDP) among others, are announcing every day new standards and approaches to ESG. Adding to the myriad of these ESG frameworks, there are several US institutional municipal investment firms also asking for information from municipal debt issuers that are based on their own ESG definitions, and often the data requested is widely different from one firm to the next. And there is limited transparency of what the weights or values that are placed on each factor that is considered.

Many of the ESG approaches permit self-certification that the municipal issuer is in compliance with ESG standards. This raises lots of questions about how rigorous the self-examination is and whether the reporting is sufficient. For example, self-certification or examination in the private sector resulted in "greenwashing" and now there are calls for disclosure regulation on what gets published. Greenwashing is reporting data that suggests the company is carbon neutral when it is not. The SEC is expected to be addressing this issue in 2021. The question remains in the private sector on what is material and relevant. The municipal bond sector should recognize the potential for "municipal greenwashing" and with limited municipal staffs, understand the strain on ESG self-reporting.

For the municipal bond sector there are two main uses for ESG factor evaluation:

ESG factor impact on credit presents a need for better disclosure so that municipal issuers can ensure the factor is reported accurately as it is weighed as a pressure that could affect bond repayment. ESG has always been a part of the credit assessment process. Questions about carbon transition, social justice and voting rights have made the credit evaluation of ESG factors more complicated and potentially more political.

Sustainable or impact investing is now the most significant activity that has brought ESG into the municipal limelight. Climate change impacts and the global push towards carbon reduction have raised the bar for what data is being asked for and how it is interpreted. A recent report by PRI on ESG and the municipal sector called for Issuers to " make information accessible and improve disclosure via existing platforms. They should view data dissemination to raise transparency and good governance standards, thus enhancing their risk profile."

The question now abounds, "What information is to be disseminated and weighed and who decides? Is the data based on science as it relates to climate issues? Is the data politically sensitive as it relates to social factors?

There is value added in ESG evaluations but before broader introduction into the US municipal bond market more work is needed to ensure that its value is useful.